

MARKET OBSERVATIONS



our customers
& our suppliers
are our
partners

It is not easy to write regular newsletters when most of the information to be provided is negative. The market is still very depressed; the USA might be on a slow recovery but Europe is in the middle of a recession which will last much longer than anticipated and probably will become worse before better. Exchange rates have always been an important factor in our business and the recent drop in the EUR/USD rate from as high as 1.46 to 1.19 makes one wonder how to conduct business. The raw material supply situation is not any better and especially weather conditions worldwide have made it worse. So are there any positive developments? Yes, the good news is that Asia's economies are very strong and the demand for finished timber products is on the rise. Many Asian manufacturers are

increasing their focus to market their products "domestically" in Asia rather than export only. The strong growth of Asia and the increasing sea-freight rates are likely to cause medium & high end-products again to be produced in those countries which have sustainable resources such as the USA, Europe and maybe South America.

APP TIMBER Market Observations

This review is based on our recent trading activities and is not necessarily a correct overall view of business in Asia.

Which country next?

China's costs have risen a lot so the big question is nowadays "where is the next country with low labour cost?". The comparison below is based on average gross cost for unskilled workers without over-time.

Salary comparison per Month

Vietnam	- USD80 to USD90
Indonesia	- USD130 to USD150
Thailand	- USD175 to USD215
China	- USD290 to USD400
Malaysia	- USD300 to USD350

We understand that Lacquer Craft Mfg. has invested in a new plant in Bangladesh where labor rates are said to be as low as USD65 per month so will Bangladesh be next "cheap" production location? Our guess is that some manufacturers

will invest in Indonesia which, over the last years, has become a safe business environment, efficient workforce and much less corrupt.

Sawn Timber

American Hardwoods: the last few months have been the toughest ever for anybody in this industry. Sawmills have been struggling getting logs not in least due to the worsening weather; freight rates have increased beyond any reasonable level and there is an (artificial?) shortage of containers and vessel space. So customers in Asia are faced with the most unreliable supply of American hardwoods ever. Will this change? We think it will and price increases seem to start slowing down, for example for Yellow Poplar. There is an increased reluctance by many of our customers to continue to purchase American lumber at the current price-levels and many of them are looking for local or other alternatives. Most mainland Chinese manufacturers do not care anymore if the timber is truly Appalachian or Southern as long as the price is "cheap". We see clear evidence that many American suppliers are "mixing grades" to obtain such "cheap" prices, a practice we refuse to do. We are confident that prices will come down after the summer holidays when more timber will be available.

European Hardwoods: the demand in Beech and Oak is on the rise due to the favorable Euro rate. Many Chinese buyers are travelling to European mills buying as much

as they can get their hands on. We also see a healthy increase in the sales of both species and can only encourage Asian manufacturers to consider Beech especially which has been undervalued in the last 5 years.

South American Hardwoods; our business is steady in species suitable for flooring such as Jatoba and Ipe. We have focused a lot on the promotion of "newer" species such as Eucalyptus grandis, Lenga (South American mahogany) and Teak (all FSC certified) and those efforts have paid off well. Many customers have started to use these species and are happy with the results. We are now promoting other new species like Chilean Ash (Eucalyptus regnans), Rosita Walnut and Peruvian Walnut and are confident about an equally good response.

African Hardwoods; these remain a big problem; most mills in Africa are focused on programs for Europe and any enquiry for Asia is always subject to such programs. Many mills have reduced logging and their output might be less than half compared to 2-3 years ago. The demand for Doussie and Iroko is good but these are mostly produced by bush mills from which many are illegal. We are considering starting our own warehouse in Cameroon to accumulate (legal) timber and be able to offer these timbers based on actual stock positions.

Softwoods; the general supply of softwoods worldwide is not good; we get less timber from our regular sources in New Zealand, Finland and South America. Many mills in New Zealand are faced with increased log prices, mainly

due to large exports of logs to - for example China and India. Our idea would be that the New Zealand government should interfere and introduce export quotas to ensure there will be enough logs for the sawmills but this will regretfully never happen. Chile is recovering from the earthquake and mills are coming back in full production but the closure of one the last larger independent sawmills (outside Arauco & CMPC) has put more constraints on the supply. We are working closely with other suppliers in Argentina and Brazil but often face quality issues in the lower grades (mostly produced for construction rather than furniture) and prices are higher than for example Radiata pine from New Zealand.

APP TIMBER News Flash

We like to keep you updated about all those new developments which could affect your business.

The situation in Scandinavia is not much better; many Finnish mills have closed due to a severe shortage of logs (owned by cooperatives) and it is unsure if they ever will re-open. Swedish mills are doing well due to the fact they often own their own forest (or at least privately owned) but they tend to focus on the lower construction grades for Europe and export to the Middle East. We have not been successful in sourcing any softwoods from Canada but have scheduled a trip this October to visit mills. However pine prices in general have reached such levels

that many Asian manufacturers have started to use the local Rubberwood and/or Mahogany or Acacia as replacements. This is a worrying trend and we have to come up with viable solutions to promote affordable imported materials.

Veneers

Our veneer business is these days much less compared to three years ago. This has mainly to do with the fact that many engineered door manufactures are struggling with exports to Europe and a large part of the veneer used for furniture is nowadays sourced from China. We are not sourcing from China since we believe that the demand for quality veneers produced in the USA and Europe will return.

NEW PRODUCTS

We believe it is important to source "new" products suitable for our markets and will continuously update you whenever we have such products. Currently we are introducing as follows;

Rosita Walnut round & square logs from South America, FSC certified – very suitable for high end construction, doors, windows, flooring, etc.

Chilean Ash logs (Eucalyptus regnans), FSC certified – suitable for indoor & outdoor furniture, doors & windows and general carpentry.

PC Alder from Canada in a mill run grade suitable for furniture, doors, etc.

Contact our local Sales Team or info@apptimber.com for more information.

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